

Message Text

CONFIDENTIAL

PAGE 01 SANTIA 08833 01 OF 02 092232Z

66

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-01 PRS-01 DODE-00 /080 W

----- 047875

R 092142Z SEP 76

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 1298

INFO AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY LIMA

C O N F I D E N T I A L SECTION 1 OF 2 SANTIAGO 8833

E. O. 11652: GDS

TAGS: ECON, CI

SUBJECT: THIRD ANNIVERSARY OF THE MILITARY COUP: AN ECONOMIC
ASSESSMENT

1. SUMMARY: IN THIS CABLE WE SEEK TO DESCRIBE THE STATUS OF THE
ECONOMY OF CHILE, AS THE JUNTA REACHES ITS THIRD ANNIVERSARY.
ON THE POSITIVE SIDE, THE JUNTA HAS WEATHERED A DIFFICULT BALANCE
OF PAYMENTS CRISIS, IS REDUCING THE RATE OF INFLATION, AND HAS
PROBABLY MANAGED TO TERMINATE THE PRECIPITOUS DECLINE IN LIVING
STANDARDS WHICH BEGAN UNDER THE ALLENDE REGIME. ON THE OTHER HAND,
INFLATIONARY EXPECTATIONS ARE STILL STRONG IN CHILE, UNEMPLOYMENT
CONTINUES TO BE VERY HIGH, AND BUSINESS ACTIVITY REMAINS
SLUGGISH. LARGE-SCALE FOREIGN INVESTMENT HAS NOT BEEN FORTHCOMING,
DESPITE THE GOC'S EFFORTS. WE EXPECT THE DOMESTIC ECONOMIC
DEBATE TO CONTINUE. IF A STRONGER ECONOMIC RECOVERY DOES NOT BECOME
APPARENT, WE WOULD EXPECT CHILE'S PRAGMATIC MILITARY LEADERS
TO JETTISON THEIR CIVILIAN ECONOMIC TEAM AND TURN TO OTHER LESS
RELIANT ON FREE MARKET FORCES TO OVERCOME CHILE'S ECONOMIC
ILLS. END SUMMARY.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 SANTIA 08833 01 OF 02 092232Z

2. ALTHOUGH THE CHILEAN MILITARY ON SEPTEMBER 11, 1973 CERTAINLY

WERE AWARE OF THE ECONOMIC CHAOS WHICH THEY WERE INHERITING, THEY HAVE TO BE DISAPPOINTED BY THE RECOVERY ACHIEVED BY THEIR CIVILIAN MANAGERS ON THIS THIRD ANNIVERSARY OF THEIR INCUMBENCY. UNEMPLOYMENT IS NEAR ITS HIGHEST RATE IN FORTY YEARS; OUTPUT OF THE ECONOMY IS LITTLE DIFFERENT FROM WHAT IT WAS IN 1967; INFLATION AFTER 16 MONTHS OF ECONOMIC AUSTERITY IS STILL AT A THREE DIGIT YEARLY RATE, RESULTING, AMONG OTHER HARMFUL EFFECTS, IN DOUBLE DIGIT MONTHLY INTEREST RATES. WHAT DOMESTIC SAVINGS THERE ARE TEND TO FLOW INTO SHORT TERM PLACEMENTS RATHER THAN PRODUCTIVE INVESTMENT. FOREIGN INVESTMENT, WHICH WAS TO PROVIDE THE PRINCIPAL STIMULUS TO ECONOMIC GROWTH, HAS BEEN SLOW TO MATERIALIZE. REAL WAGES ARE 75 PERCENT OF THEIR JANUARY 1970 LEVEL; PER CAPITA WHET COMSUMPTION IS 86 PERCENT. THE ALLEGED SOCIAL COSTS OF "FREE MARKET" POLICIES HAVE BECOME A CONTENTIOUS POLITICAL ISSUE.

3. THE TANGIBLE SUCCESSES TO WHICH THE JUNTA CAN POINT, WITH PARDONABLE PRIDE, INCLUDE THE WEATHERING OF A VERY DIFFICULT BALANCE OF PAYMENTS CRISIS WHILE AVOIDING POLITICAL CONCESSIONS TO CREDITOR NATIONS; EXPANDING CHILE'S NON-TRADITIONAL EXPORTS, THEREBY SOMWHAT REDUCING CHILE'S HEAVY DEPENDENCE ON COPPER; AND BRINGING ORDER OUT OF THE ALLENDE CHABS. IMPRESSIVE, TOO, HAVE BEEN THE LESS TANGILBLE REFORMS INTRODUCED BY THE ECONOMIC TEAM IN ORDET TO ALY THE GROUNDWORK FOR LONGER TERM ECONOMIC STABILITY AND GROWTH. THE TAX SYSTEM HAS BEEN RATIONALIZED, WITH TAX EVASION REDUCED; MARKETS ARE FUNCTIONING, HOWEVERN IMPERFECTLY; PRICES OF LOCAL GOODS AND SERVICES ARE MOVING INTO LINE WITH INTERNATIONAL PRICES; DISTRIBUTION OF CREDIT IS BASED MORE ON ECONOMIC CRITERIA AND LESS ON CONNECTIONS AND INFLUENCE THAN IN THE PAST. MODERN PROGRAMS REFLECTING SOCIAL CONCERN HAVE BEEN INSTITUTED WHICH ATTEMPT TO MITIGATE THE HARDSHIPS WHICH THE STABILIZATION PROGRAM IMPOSES ON THE VERY POOR. WHITH THESE REFORMS, CHILE IS GRADUALLY ACHIEFING SOME DEGREE OF ECONOMIC STABILITY AND EXPANSION -- ALBEIT AT A LOW LEVEL AND SLOWLY.

4. THE PACE OF RECOVERY WOULD BE MUCH FASTER IF THE CHILEAN ECONIMIC TEAM HAD NOT HAD TO FACE LOW COPPER PRICES, MUCH WORSENERD TERMS OF TRADE, DISCRIMINATRY TREATMENT AT THE HANDS OF CHILE'S CREDITOR AND TRADING PARTNERMS, AND ADVERSE WORLD ECONOMIC CONDITIONS GENERALLY. BRAZIL, THE ECONOMIC TEAM OFTEN ARGUES, CONFIDENTIAL

CONFIDENTIAL

PAGE 03 SANTIA 08833 01 OF 02 092232Z

ENJOYED AN ECONOMIC ENVIRONMENT FAR MORE FAVORABLE THAN CHILE'S, AND OTHER ADVANTAGES YET IT TOOK BRAZIL FOUR YEARS TO TURN THE RECEVERY CORNER. SUCH RATIONALIZATION, HOWEVER RELEVANT, DOES NOT EXCUSE THE MANNTER IN WHICH THE ECONOMIC TEAM HAS FUNBLED THE BALL IN FAILING TO STIMULATE LARGE-SCALE FOREIGN INVESTMENT, TO MANAGE FINANCIAL FLOWS MORE ADROITLY, AND TO DEVELOP A MORE RESILIENT CAPITAL MARKET.

5. IF, THEN, CHILE'S MILITARY MASTERS ON THEIR ANNIVERSARY WERE DISPOSED TO STRIKE A BALANCE ON THE CHILEAN STABILIZATION PROGRAM BASED SOLELY ON SUCCESSES AND FAILURES VISIBLE TO THEM, THEY WOULD SURELY FIND THEIR CIVILIAN ECONOMIC ADVISORS WANTING. HOW LONG THEY WULL CONTINUE TO SUPPORT THIS ECONOMIC TEAM WILL DEPEND ON HOW CALMLY THE PUBLIC CONTINUES TO TOLERATE THE SCRIFICES WHICH THE STABILIZATION PROGRAM DEMANDS. THERE IS CONSIDERABLE DISCONTENT WITH GOC

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 SANTIA 08833 02 OF 02 100138Z

66

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 PA-01 PRS-01 DODE-00 /080 W

----- 049995

R 092142Z SEP 76

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 0000

INFO AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY LIMA

C O N F I D E N T I A L SECTION 2 OF 2 SANTIAGO 8833

ECONOMIC POLICIES AND EXCEPTIONAL HARDSHIP, AMONG THE MIDDLE AND ESPECIALLY LOWER CLASSES, ALTHOUGH NO EVIDENCE AS YET THAT DISCONTENT APPROACHES THE EXPLOSIVE LEVEL. MANY INDUSTRIALISTS AND THEIR BANKERS ARE GRUMBLING OVER CONTINUED LOW CONSUMER DEMAND, AND THE THREAT OF COMPETING IMPORTS AS THE ECONOMIC TEAM - "THOSE ACADEMICIANS" - RELENTLESSLY PURSUE THEIR FREE MARKET, LIBERAL TRADE THEORIES. OBVIOUSLY THE ECONOMIC TEAM NEEDS TO SHOW, AND TO SHOW FAIRLY SOON, MORE TANGIBLE RESULTS WITH REPECT TO INCOME, EMPLOYMENT AND PRICES IF THESE PRESSURES FOR A CHANGE IN THE DIRECTION

OF ECONOMIC POLICY ARE TO BE CONTAINED.

6. VERY RECENTLY THE EMPLOYMENT SITUATION APPEARS TO HAVE TAKEN

A FAVORABLE, IF SLIGHT, UPTURN. INDUSTRIAL AND CONSTRUCTION ACTIVITIES ARE SLOWLY EXPANDING, AND INFLATION IS GRADUALLY BEING REINGED IN. THE INTERNATIONAL COPPER MARKET IS MORE BUOYANT. NONETHELESS, THE SANTIAGO RATE OF UNEMPLOYMENT WILL PROBABLY CONTINUE IN EXCESS OF 15 PERCENT FOR THE BALANCE OF THE YEAR; OUTPUT WILL NOT EXPAND BY MORE THAN FIVE PERCENT ON THE YEAR, FOLLOWING A 15 PERCENT DECLINE IN 1975; AND INFLATION FOR 1976 WILL BE ON THE ORDER OF 200 PERCENT. THE ECONOMIC
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 SANTIA 08833 02 OF 02 100138Z

SITUATION WILL HAVE IMPROVED FOR MOST CHILEANS, BUT NOT A GREAT DEAL RELATIVE TO WHAT THEY KNEW IN 1975 OR BEFORE THE DISTORTIONS OF THE ALLENDE ERA BECAME SO APPARENT.

7. NOR IS THE LONGER TERM OUTLOOK VERY MUCH BETTER. DOMESTIC INVESTMENT WHICH WOULD LAY THE BASIS FOR FUTURE JOBS AND INCOME IS MUCH DEPRESSED, AND FOREIGN INVESTMENT, FOR A COMBINATION OF REASONS, IS FLOWING AT A DISAPPOINTINGLY SLOW PACE. THE GOC IS TRYING TO STIMULATE DOMESTIC INVESTMENT WITH SPECIAL CENTRAL BANK LINES OF CREDIT. TAX REDUCTIONS, ESPECIALLY THE RECENT ELIMINATION OF THE FIVE PERCENT INCOME SURTAX, SHOULD ALSO HELP TO REVIVE DOMESTIC DEMAND. BY THEMSELVES, HOWEVER, THESE MEASURES ARE NOT SUFFICIENT. NOR IS THE PRESENT GOC, IN THE FACE OF A WORLD-WIDE DECLINE IN FOREIGN ASSISTANCE AND GIVEN ITS OWN INTERNATIONAL IMAGE, ABLE TO STIMULATE ECONOMIC DEVELOPMENT BY ATTRACTING LOW-INTEREST LOANS AND GRANTS TO ANYTHING LIKE THE EXTENT THAT PRE-ALLENDE PREDECESSOR GOVERNMENTS DID.

8. OVER THE NEXT FEW MONTHS, THE ECONOMIC DEBATE IS LIKELY TO BE HIGHLY CHARGED, WITH SOME BUSINESS INTERESTS, THE MORE INDEPENDENT LABOR ELEMENTS, AND OPPOSITION ECONOMISTS FORMING A QUASI-ALLIANCE AGAINST THE MONETARIST ECONOMISTS AND OTHER BUSINESS AND FINANCIAL INTERESTS. AT PRESENT, FUNDAMENTAL ECONOMIC ISSUES ARE JOINED IN THE DEBATE OVER CONTINUED CHILEAN PARTICIPATION IN THE ANDEAN PACT. (THE CURRENT ECONOMIC SIGNIFICANCE OF THE PACT TO CHILE, WHOSE MEMBERS TODAY TAKE NOT MORE THAN FIVE PERCENT OF CHILE'S EXPORTS, IS HARDLY WORTH SO MUCH SOUND AND FURY. OF COURSE, IT IS SIGNIFICANT FOR CHILE'S FOREIGN POLICY.) THE GOVERNMENT IS THREATENING TO WRECK THE PACT, IN ORDER TO REGAIN FREEDOM TO COAX IN FOREIGN INVESTORS, AND TO STIMULATE INDUSTRIAL EFFICIENCY AND COMBAT INFLATION. THE OPPOSITION, TOGETHER WITH CERTAIN BUSINESS ALLIES, ARGUES THAT CHILE NEEDS THE PACT AS BARGAINING LEVERAGE IN INTERNATIONAL FORA, AND AS A SECURE BASE FOR INDUSTRIAL EXPANSION. THE PACT IS INDEED AN EXTENDED PROTECTED MARKET, A CONCEPT REJECTED BY THE GOC FREESTRADERS WITH GREATER FAITH IN THE WORKINGS OF COMPARATIVE ADVANTAGE AND AN EFFICIENT ALLOCATION OF RESOURCES INTERNATIONALLY.

9. SO FAR, AS IN PAST DEBATES, THE MILITARY CONTINUES TO SUPPORT THE ECONOMIC TEAM. NEVERTHELESS, ON THIS ISSUE THEY ARE KEEPING

THE CIVILIANS OUT IN FRONT MORE THAN BEFORE. IN CONTRAST TO
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 SANTIA 08833 02 OF 02 100138Z

THEIR ECONOMIC ADVISORS, THEY HAVE FEW, IF ANY, INNER CONVICTIONS
ABOUT THE THEORETICAL MERITS OF THE ARGUMENT. BASICALLY THEY ARE
PRAGMATISTS, LESS THAN ENCHANTED WITH PRESENT POLICIES, AND QUITE
PREPARED, IF MORE TANGIBLE BENEFITS DO NOT EMERGE FROM THE
CAUAS - DE CASTRO STABILIZATIONS POLICIES, TO FIND A TEAM LESS
DOGMATIC IN ITS INSISTENCE THAT MARKET FORCES BE RELIED ON TO CURE
CHILE'S ECONOMIC ILLS.
POPPER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ANNIVERSARY CELEBRATIONS, MILITARY GOVERNMENT, INTELLIGENCE ASSESSMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SANTIA08833
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760341-0724
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760977/aaaacoag.tel
Line Count: 238
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 14 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 JUL 2004 by ElyME>; APPROVED <22 OCT 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: THIRD ANNIVERSARY OF THE MILITARY COUP: AN ECONOMIC ASSESSMENT
TAGS: ECON, CI
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006